



In response to requests, the following material has been prepared for the use of committeemen and discussion leaders in answering questions regarding the cotton situation, the program, and proposed alternative plans:

#### TARIFF EQUALITY FOR FARMERS: The Case for the Processing Tax

This leaflet is about processing taxes, and why many farmers feel they need them. The important thing about the taxes is what they could do toward bringing farmers equality of income. Before discussing any present plans for a processing tax, we need to start from the ground up, and look carefully at some simple facts about the money farmers make and how they spend it. That is when the real story begins.

Farmers naturally are interested in the amounts of money they get for the products they raise; but much more important is how much they can buy with the money they earn. It is encouraging to see farm income go up, but if the prices of industrial goods that farmers buy go up just as fast, farmers are not much better off. When we talk about farm income and farm prices, their relationship to industrial income and prices is the important thing.

For years this relationship has been unfavorable to farmers. Considering the productive work that farmers do, they have not been getting their fair share of the national income. The chart on this page is a simplified picture of what has been going on for the past ten years. Beginning with 1929, it shows how industrial prices stayed fairly level, while farm prices were falling to bankruptcy levels; and how when farm prices started going up again, they never caught up with industrial prices. As a matter of fact, the situation of farmers was more unfavorable than the chart shows, for even in 1929, farm prices already were out of balance with industrial prices.

In other words, farmers plainly have not had equality with industry. There are many reasons for this. Some of them probably never can be measured, for the situation is complicated, and is deeply rooted in both our national and in world economic affairs. However, the two most important reasons for the inequality can be singled out. More than that, they can be remedied, at least to some degree.

Here is the first reason. When the depression came, industrial prices went down a little; farm prices went down a long way. When better times came, farm prices recovered, but industrial prices went higher still. Both price levels have dropped during the present recession, but farm prices have dropped further and faster.

One of the causes of this was especially noticeable during the 1932 depression. On the whole, industry maintains an effective control over production, cutting down on output at times when surplus goods are on the market. Until 1933, farmers had no effective way to adjust their production; so when surpluses piled up, prices went down almost to the vanishing point, and there was much waste. Since 1933, the programs of the



Agricultural Adjustment Administration have given farmers a chance to cooperate in adjusting their production to some degree. The way that farm recovery led the national recovery up from the low point of 1932 indicates how effective the farm program has been. In 1935 a Supreme Court decision put an end to the AAA production adjustment contracts, and the Agricultural Conservation Program which followed was able to help farmers adjust acreage only indirectly. The new AAA farm program, based on the Agricultural Adjustment Act of 1938, gives farmers a chance to adjust acreage through the conservation program, and to regulate the marketing of surpluses of certain crops through marketing quotas in years of very large supply.

However, industrial leaders still are able to regulate supplies much more thoroughly than farmers can, or ever would want to, for no responsible farm group ever has suggested cutting down production so that farmers could profit from scarcity. As a matter of fact, farmers still have a long way to go toward preventing actual surpluses, and toward regulating their marketing when surpluses occur. We can say, therefore, that one of the two reasons for the inequality between farm prices and industrial prices -- control over supplies -- has been partly corrected.

The second reason for farm inequality with industry is our tariff system. Farmers buy the things they need at high, tariff-protected prices. They sell their great export crops -- such as cotton, wheat, and tobacco -- at a lower scale of prices, determined by the world market. These exports are part of our farming system. If we stopped exporting we would have to abandon more acres than anyone wants to consider. But as long as we keep our exports, no adjustment of supply is enough to give farmers a fair price. When the world market is low, the farm prices for the export crops will be low, too.

No one ever has measured exactly how much the tariff costs American farmers, or other consumers who buy industrial goods. Probably nobody ever can, for the rates vary with each of thousands of articles. Also, the effectiveness of the tariff varies with different items. On some, the tariff is fully effective; that is, protected manufacturers raise their prices by the full amount of the tariff. In these cases, if the tariff were removed, the price would come down by just that much. With other items the tariff is only partly effective; that is, the manufacturers do not take the full amount of the tariff in higher prices. If the tariff were removed, the price would not fall by the full amount of the duty.

In a word, the tariff has been a part of our price structure for so many years, that no one can say what would happen if a single tariff, or all tariffs were suddenly removed. Also, the part of the tariff that is collected -- the actual duties on imports -- goes into the Federal Treasury and helps to pay the costs of government. Like any other tax money, it comes out of consumers' pockets. But the biggest cost of the tariff -- the higher prices for articles manufactured in this country -- comes out of consumers' pockets, too; although none of it goes into the Federal



Treasury. It goes to manufacturers in the form of higher prices.

Even though there is no exact information on the entire cost of the tariff, some interesting estimates have been made. In a book on the tariff written in 1936, called "Picking America's Pockets", David L. Cohn said that farmers alone lose half a billion dollars a year as a direct result of the world tariff situation.

At a Senate hearing in 1929, some figures were given on what the tariff added to the cost of certain things farmers buy, assuming that the tariffs were fully effective in raising domestic prices. Here are those figures on added costs per year for some of those commodities, all of which farmers use extensively:

Aluminum .....	\$19,000,000
Scythes, corn knives, etc.....	240,000
Shovels, spades, and scoops .....	4,600,000
Miscellaneous machinery .....	7,240,000
Saddle and harness hardware .....	2,980,000

In 1934 the Foreign Policy Association made some estimates on the annual cost of the tariff for certain articles. These are some of them:

Watch cases .....	\$ 900,000
Watch movements .....	6,900,000
Carpets, etc. ....	420,000
Dyes .....	6,300,000
Plate glass .....	6,600,000

Another way to get an idea of what the tariff costs is to remember the tariff rates on articles that are familiar in most homes. The prices of some of the articles may not be raised by the full amount of the tariff, but there is no doubt that every time a consumer buys something which is protected by a tariff he is chipping in all or part of the tariff as a contribution to the manufacturer. These are some of the rates: Dishes, 67 percent; oilcloth, 20 percent; rugs, 60 percent; lace curtains, 60 percent; washing machines, 35 percent; linen towels, 55 percent; toothbrushes, 94 percent; stockings, 60 percent, and women's hats, 67 percent.

Thus, the tariff is costly to all consumers. However, some who are engaged in business and industry may receive benefits that partially offset the cost. But farmers get no such benefits. They buy on a protected market and sell on a world market. That is why they never have been able to get their share of the national buying power. It is true that there are tariffs on farm products, and for a few crops these tariffs are effective, but in the case of the export crops, which we send out of the country rather than take in, those tariffs are just so many scraps of paper. They don't give farmers any real protection.

So, whether farm income goes up or down, farmers always suffer from tariff inequality. They buy on a higher market than they sell on. They sell their export crops at low world prices, and as long as they export



they will keep on selling at world prices. They need payments to make up something of what the tariff costs them.

There is one practical way in which farmers can overcome this inequality. That is by tariff equalization payments made out of funds raised by a processing tax.

A processing tax was in effect for more than two years, until early in 1936 -- when a Supreme Court decision invalidated the section of the Agricultural Adjustment Act under which the tax was collected. On the whole, the tax plan worked well. But there still is much misunderstanding, both of what the former tax actually did, and what would happen if the same kind of a tax were put into effect again.

The processing tax is needed because it is the only practical way suggested thus far for raising money for making parity payments to farmers over any considerable period. The Agricultural Adjustment Act of 1938 says that if Congress provides for raising sufficient funds, parity payments shall be made to farmers who produce cotton, corn, wheat, tobacco, or rice. The money authorized annually for the AAA Farm Program is needed to pay farmers for shifting land to soil-conserving crops and to pay for soil-building practices, and so cannot be used for parity payments. Two hundred and twelve million dollars were voted by the last session of Congress for payments in connection with the 1938 crop on cotton, wheat, corn, tobacco, and rice. But nobody can be sure Congress will vote such funds at the next session. And as prices have declined the need for funds has increased.

Unprejudiced people who have studied the processing tax proposal for our great export crops know that it is fair. A great deal has been written about the injustice of the tax. The complaints of some middlemen were particularly loud. Sometimes they told farmers that farmers bore the tax. Sometimes they told people in towns and cities that consumers bore the tax. But at other times (especially when they were trying to recover tax funds) they argued just as convincingly that they themselves had borne the tax.

The simple truth is this: collecting processing taxes and making parity payments have the same effect as raising the prices which farmers receive for their raw products, but only when those farm prices were below a fair level in relation to the prices which tariff-protected industries get for their products. No parity payments would be made if farm prices were at the fair-exchange level or above it. In many cases the parity payments would lift farmers' returns only part of the way toward the fair-exchange level.

Here are some of the facts about parity payments and the processing tax.



### Parity Income is Fair Income

Neither parity price nor parity income is a hide-bound theoretical goal. The idea of parity price and parity income for farm products is merely a way to find the fair level for farmers' returns -- fair in relation to the prices farmers have to pay and the returns which people in business and industry get for similar amounts of productive work. The first step is to pick out a period when the relationship was fair. In looking back over the past, the five years before the outbreak of the World War appear to be those in which there was the fairest exchange relationship between the things farmers sold and the things farmers bought. Therefore, for most crops the parity period is 1909 to 1914. For a few other crops for which the relationship seemed fairest in other years, a different parity period is used.

The way to find the parity price of cotton, for example, is to take the amount of industrial goods that a bale of cotton bought during the parity period and discover how much that same amount costs today. That sum will be the parity price of a bale of cotton.

To use actual figures, the average price of a pound of cotton during the five years before the war was 12.4 cents, and that pound of cotton, of course, could be traded for 12.4 cents worth of industrial goods. Last March the cost of that same amount of industrial goods was 16.2 cents. So 16.2 cents a pound was the parity price of cotton. But the actual price of cotton last March was only 8.4 cents. In other words the price of cotton was only a little more than half of its fair exchange value.

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Other major crops have been below parity recently, although not so far below as cotton. Naturally, when farmers' buying power is reduced, they are not able to buy as much manufactured goods as they need. This in turn reduces sales of industrial products; wages go down and people lose jobs. Our whole national life feels the bad effects. In the long run, any effort to keep farmers' returns under a fair level hurts everyone. That was shown most clearly in the near collapse of 1932.

National programs for Agriculture have parity price and parity income for farmers as a primary objective. Much has been done but much remains to be done.

The new Farm Act, the Agricultural Adjustment Act of 1938, recognizes the need of the farmers by providing additional payments - parity payments - if special funds are provided for these payments. These parity payments can be made on rice, cotton, tobacco, wheat and corn.

Why are the possible Parity Payments limited to five crops?

Experience with the old adjustment programs indicated that while production adjustment and regulation of marketing helped farm income, these steps were not enough for certain crops. Our export crops, in particular,



are the ones for which something else is needed. In the case of a crop that is largely used in this country farmers can hope to approach parity if they stabilize production, handle reserve supplies carefully, and regulate marketing in emergency years. But the crops which we sell abroad are different. We sell cotton and wheat on the world market. With most industrial products, the world price level is lower than the protected American price level, but in the case of export crops the world price largely sets the price for the whole crop, even the part that is used at home.

Could we afford to shut off our exports? If we did, and stopped shipping cotton, wheat, rice, tobacco, and corn (in the form of pork) abroad, thousands of farmers would have to quit raising those crops, and either leave their land idle or compete with other American farmers. The products of many of our acres still go abroad. In the marketing year which ended recently, for instance, we exported 5,598,415 bales of cotton and about 100,000,000 bushels of wheat. Exports are still important to American farmers.

But American farmers cannot afford to accept the low world price level at which they have had to sell their export crops in order to hold the world market. That is where parity payments come in.

#### What are Parity Payments?

The Agricultural Adjustment Act of 1938 directs the Secretary of Agriculture, if and when the necessary appropriations are made, to make payments to growers of cotton, wheat, corn, tobacco, and rice at times when the prices of any or all of these products are less than parity. In this way the farmers who grow export crops could have some protection from the effects of the tariff, without giving up their chances to sell abroad. They need this protection badly. Cotton prices for the 1938 crop are low because of the tremendous supply, even though growers cooperated fully in the AAA farm program. A huge carry-over still hangs over the market. The price adjustment payments made this year in connection with the 1937 cotton crop will help incomes in the South to some extent; and parity payments are to be made in 1939. But will they be continued?

A processing tax would assure their continuance.

In the case of wheat, we have a large crop and comparatively low prices. Wheat growers, too, need parity payments, and they will need them in the years to come.

Growers of other export crops face difficulties similar to those confronting cotton and wheat growers.

Acreage adjustment under the AAA program will give some protection to farmers who grow cotton, wheat, corn, rice, and tobacco. But they need parity payments in addition. Farmers know this. Congress knew it when it wrote the Farm Act, and provided for such payments. But the payments cannot be made without the necessary funds.



### How could the money be raised?

The soundest plan proposed for making parity payments has been a tax on the processing of the five crops on which parity payments may be made. This kind of a tax would be similar in principle to the former processing tax which supplied the money for the AAA adjustment programs. That is, a tax would be laid on the making of raw cotton into fabrics, making tobacco into finished products like cigars or cigarettes, and the milling of corn, wheat, and rice. The proposal has been made that the tax increase when the price of a commodity decreases, and that it decreases as the price of the commodity increases. In this way, payments would be higher in the years when the price and income from a commodity were low. This would help to offset the decline in price. On the other hand, the tax would be low or would be lifted altogether - when the price for the commodity was fair and this would prevent the tax from inflicting a hardship on the consumer.

### Who would pay the Processing Tax?

The tax would be collected from the companies which process the crops, but it would be passed on to people who bought the finished products. Studies of the former processing tax show that the cost of the tax amounted to a very small part of the finished product. A proposal was made at the last session of Congress for a processing tax of 20 cents a bushel on wheat and a tax on cotton graduated according to yarn number.

Here are some figures on how much a processing or tariff equalization tax of 20 cents on wheat and a graduated tax on cotton would add to the cost of articles that people buy at retail:

Pound loaf of whole wheat bread .....	0.275	cents
Pound loaf of bolted wheat bread .....	0.304	"
Pound of macaroni .....	0.5	"
Pair of overalls .....	4.42	"
Chambray work shirt .....	1.73	"
Combed broadcloth shirt .....	3.29	"
House dress .....	3.43	"
Woman's nightgown .....	5.02	"

These are samples of the cost of assuring farmers of fairer prices -- a small fraction of the retail price of some articles. Consumers already are paying several times as much in order to give tariff benefits to certain industries. They have been paying for so many years that they are used to it. Few of them realize how much tariffs increase the prices of things they buy.

Here is a comparison between how a tax graduated according to yarn number on cotton would add to the price of cotton goods and the way that the tariff already adds to costs.



<u>Type of cloth</u>	<u>Approximate amount already added by tariff (minimum specific)</u>	<u>Approximate amount that would be added by proposed processing tax <sup>1/</sup></u>
Sheeting -- carded	7.70 cents per pound	2.76 cents per pound
Drill --- carded	11.00 " " "	3.33 " " "
Print cloth -- carded	18.15 " " "	4.51 " " "
Broadcloth -- carded	17.60 " " "	4.39 " " "
Voile -- combed	27.50 " " "	6.17 " " "
Lawn -- combed	38.50 " " "	5.98 " " "

Is the Processing Tax a fair tax?

A processing tax amounts to nothing more or less than an increase in the farm price of raw materials. It would apply only when the farm price was below parity, and would have the effect of giving farmers something nearer a fair price. Costs to consumers, after processors passed the tax on, would be no more than they would be if there were no tax and farmers were getting a fair price, or a more nearly fair one.

The direct cost to consumers would be small, and would be more than offset by the indirect benefits that would come from increasing the power of farmers to buy city-made goods.

Some processors have said the tax would be unfair to them. It couldn't be, if they pass it on as they did the old one. It would not give any one processor the advantage over another, for all of them pay at the same rate exactly as they pay at the same rate when the farm price of a product increases. The only industries that might be really affected would be those which could operate at a profit only by paying farmers less than a fair price.

Would a Processing Tax cause exports to go down or imports to go up?

A processing tax would tend neither to decrease exports or increase imports. The amount of the tax would be refunded on all of the taxed products we shipped out of the country, so that our manufacturers would not be hampered in selling processed farm products on the world market. An extra import tax, equal to the amount of the tariff equalization tax, would be levied on competing products which came into the country, so that American manufacturers would not be at any disadvantage in competition with foreign articles.

<sup>1/</sup> The rates begin at 0.5 cent per pound for number 0.1 yarns and increase at the rate of 0.2 cent per pound for each higher yarn number up to and including no. 11's on which the rate is 2.5 cents per pound. Thereafter the rates increase at 0.1 cent per pound per yarn count to 46's, on which the tax is 6.0 cents per pound. A uniform tax at the rate of 6.0 cents per pound is provided on all counts higher than 46's.



Opposition to the Processing Tax is opposition to tariff equality for farmers.

Last April Senator Pope of Idaho made a statement during Senate debate which shows how badly farmers need relief from the unfair effects of the tariff. Part of what he said follows:

"Under the tariff laws the consumers are paying a huge indirect subsidy, most of which goes to other industry than agriculture. It is exceedingly difficult to obtain a definite idea as to this amount, but estimates range from \$4,000,000,000 a year to \$7,000,000,000 with about \$600,000,000 going into the Treasury of the United States. Assume for the moment that the figure of \$4,000,000,000 is more nearly correct, and deduct from that \$600,000,000 which was received by the Treasury: This leaves \$3,400,000,000 as a subsidy contributed by the consumers of the country largely to the manufacturing industry. This means that on the average every county in the United States pays more than a million dollars a year, and that every man, woman, and child in the United States pays on an average of \$35 a year. The farmers of the country, including the members of their families, pay more than a billion dollars a year toward this subsidy. It should be remembered in this connection that the largest amount that has ever been appropriated from the Treasury of the United States for benefit payments to farmers is about a half billion dollars. These figures should be borne in mind by those who say that agriculture is not entitled to any further payments."

Parity payments are the one practical way to restore some equality of income to farmers who raise our five big export crops. From present indications there can be no parity payments without a processing tax. Opposition to the processing tax is opposition to fair prices for farmers. It's up to the farmers of America to make up their minds about the tax, and put the facts before the rest of the Nation.







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In response to requests, the following material has been prepared for the use of committeemen and discussion leaders in answering questions regarding the cotton situation, the program, and proposed alternative plans:

POINTS CONCERNING A PROCESSING, OR POSSIBLE  
TARIFF EQUIVALENT TAX ON COTTON

I. What would be the purpose of such a tax?

The purpose of a tariff equivalent tax on cotton would be to raise revenue to make payments to cotton farmers. The payments would commensate, to some extent, for the tariff and other handicaps to cotton farmers under present circumstances. The need for an income to cotton farmers over and above the market price of cotton is obvious.

II. Who would pay the tariff equivalent tax?

The tax would be collected from operators of textile mills, but in most instances it would be passed on to the people who buy cotton goods at retail stores. The ultimate consumer would pay either all of the tax or most of it. In operation the new tax would resemble the old processing tax. Studies show that, in general, consumers paid the processing tax.

During 1935 a special Cabinet committee made a report to the President on the cotton textile industry. The paragraph beginning on the bottom of page 140 of that report says:

"Whether manufacturers absorb all or part of the cotton processing tax does not lend itself to simple proof or disproof, but the evidence indicates that in general the processing tax is passed on by processors. \* \* \* \* \* Since the cotton processing tax is a uniform cost per pound on all cotton entering manufacture, it does not give one mill a competitive advantage over other mills. This tends to insure its being passed on to buyers of cotton articles."

III. How much would the tax raise retail prices of cotton articles?

The price of cotton is an important factor in the wholesale cost of gray goods; it is a relatively small fraction of the retail cost of finished cotton products. A tax, in turn, would be only a fraction of the cost of raw cotton. Assuming that as in the past the amount of the tax would be passed on to the consumer, it would be a very small part of the cost of the things he would buy. Assuming a tax of three cents a pound on raw cotton, the following table shows the amount by which the tax would add to the cost of generally used cotton articles. The figures are, in cents, and represent



the tax on the amount of raw cotton required to make each of the articles.

Household articles:	Cents
Sheets, 81 by 99 inches	5.36
Pillowcases, pair, 45 by 36 inches	1.71
Muslin, per yard, bleached, 36-inch	1.00
Bath towels, 24 by 48 inches	2.29
Face towels, 18 by 36 inches	.79

Men's clothing:	
Overalls	1.93
Work pants	4.43
Shirts:	
Carded broadcloth	2.00
Combed broadcloth	2.21
Pajamas	2.93
Woven athletic union suits	1.43
Woven shorts	.79
Knit athletic undershirts	.57
Socks:	
Carded yarn	.29
Mercerized yarn	.36

Women's clothing:	
House dresses	2.43
Uniforms	2.71
Slips, woven	1.00
Bloomers, medium weight	1.00
Vests, knit, medium weight	.79

IV. Would the tax be as large a part of the retail price as the tariff is?

No; existing tariff rates represent several times as much of the retail price of cotton articles as a three-cent tax would. Two reasons make it difficult to compare tariff and tax on a mathematical basis. First, the actual tariff rates on manufactured cotton articles vary so widely with each individual article that it is almost impossible to compare the tariff with a tax on cotton used in a similar article.

Second, in the case of cotton textiles, the tariff does not represent a clear margin of extra profit as it does in some more closely organized industries. The American cotton textile industry is highly competitive, so that prices tend toward the lower levels at which a profit still can be made. Possibly if the tariff were removed the price of cotton goods would be lowered, but not by the full amount of the tariff. However, the tariff on cotton textiles does represent an added amount which consumers have to pay. If the tariff were removed foreign textiles would come in at very low prices. At present some come in over the tariff walls and still compete with



protected domestic articles. The tariff affords real protection to the American cotton textile industry. It is necessary if the industry is to survive as it is set up at present. As a price for that protection of an industry, American consumers pay higher retail prices. A cotton tax would give similar protection to American farmers. It would amount to a much smaller part of retail costs. The textile industry, which is dependent upon its tariff, charges that the much smaller tax for the benefit of farmers would be a burden upon the poor.

The cotton policy of the national administration, as expressed by Secretary Wallace, will tend to keep, and if possible expend, our exports of cotton. That means that the price of cotton--domestically consumed cotton as well as exported cotton--probably will remain considerably below the fair-exchange level. The supplementary payments would make up part of the difference to cotton farmers. With the cotton price low, the proposed 3 cent tax would not make the price of cotton unduly high to mills. It still possibly would be below the fair-exchange level. Supplementary payments are the only way of making up to cotton farmers for the loss of income and purchasing power which would result from selling their cotton at a figure near the world price. Without the payments they would be at a permanent disadvantage which would have its effect upon the South and the entire country. Cotton textile interests, protected by the tariff, should be willing for cotton farmers to receive a decent price for their product, even if that means a reasonable processing tax on cotton.

A comparison of the way that the tariff and a three-cent tax would affect retail prices of widely used cotton products follows:

Article	Retail price Fall 1937	Cents per article		Percentage of price	
		Tariff 1/ (Minimum)	Tax at 3 cents per pound net: weight of: raw cotton:	Tariff 1/ (Minimum)	Tax at 3 cents per pound net: weight of raw cotton:
Overalls	\$1.27	8.01	5.93	6.31%	4.67%
Shirt	1.00	10.88	2.00	10.88%	2.00%
Shirt	1.55	14.28	2.21	9.21%	1.43%
Pajamas	1.59	18.66	2.93	11.74%	1.84%
House dresses	1.00	13.25	2.43	13.25%	2.43%
Sheets	.95	17.16	5.43	18.06%	5.72%

1/ Represented by tariff (minimum specific) on the quantity of specified fabric required in the manufacture of articles.



V. How would the tax affect farmers outside the South?

Directly, the proposed cotton tax would affect other farmers only in the slight degree it would affect other uses of cotton goods. Indirectly it would have an important effect. The indirect effect concerns the cotton program rather than the tax itself. The purpose of the program, as it affects cotton is to increase the income of growers, so that they will be nearer to a fair-exchange level with things farmers buy. Increased buying power in the farm areas means increased demand for industrial products, including cotton textiles.

The effect of increased farm buying power was studied during the early years of agricultural adjustment. In August, 1936, the AAA issued a study of freight shipments from the industrial northeast (the 16 states east of the Mississippi and north of the Ohio and Potomac) to the other 32 states which are mainly agricultural. In 1935, farm cash income was 58 percent higher than it was in 1932. During the same period carlot shipments of manufactured commodities from the northeast to farm areas increased 60.1 percent.

VI. How would the tax affect cotton textile companies?

The best way of estimating the effects of a tax is to study the effects of the cotton processing tax from the middle of 1933 through 1935. The rate of the processing tax was 4.2 cents a pound. Studies already referred to show that in general the tax was passed on by the mills. Other factors to be considered are sales of products competing with cotton, and the effect of the increased price of raw material on sales of cotton textiles.

Extracts from the Cabinet Committee's report on the cotton textile industry (page 138 and following) give considerable information on these and related points.

"..... In the case of cotton, during the period in which the processing tax has been in effect, the farm price plus the processing tax has on the average approximately equalled the parity price for the domestically consumed portion of the crop."

\* \* \* \* \*

In other words, what the processing tax really did was put the price of raw cotton back in balance with other prices. The mills which complained that the tax was putting them out of business were saying by implications that they could not afford to pay growers a fair-exchange price for cotton.

\* \* \* \* \*

"..... the ratio of cotton to the total of the five major



textile fibers consumed has varied very little during the past quarter century. The highest calendar year ratio, 76.1 per cent occurred in 1916, and the lowest, 69.8 per cent in 1930. During calendar years 1932, 1933, and 1934 the ratio varied less than one half of 1 per cent, and did not fall below 74 per cent of the total consumption of the five major textile fibers."

That evidence indicates that the processing tax did not have the effect of increasing consumption of other textile fibers at the expense of cotton.

\* \* \* \* \*

As has already been pointed out, the chief effect of the processing tax on the mills was to increase the price of raw cotton--to all of the mills alike--to a fair-exchange level. Yet the charge was commonly made that the tax was putting mills out of business.

"Attention may also be called to the earnings in the cotton textile industry before and after the tax went into effect. In 1930, 1931, and 1932 the cotton textile industry as a whole showed serious losses. In 1933, subsequent to the imposition of the processing tax, the industry as a whole showed profits, and for the first half of 1934, according to information from the Federal Trade Commission, the industry also showed a profit, although not so large as for 1933. Profits or losses for individual processors are, however, in themselves no proof that the processing tax has been passed on. For many years large numbers of establishments have been operating at losses and gradually going out of business. This situation would remain unchanged if all mills passed on the full amount of the processing tax. To argue that losses indicate failure to pass on the processing tax is tantamount to arguing that any loss which a mill may sustain should be ascribed to the processing tax."

The one valid argument which might be made--if it were true--against the proposed tax on cotton would be that it reduced consumption of cotton. No such reduction took place during the time the cotton processing tax was in effect. Figures on consumption of cotton by American mills follow:

24 months previous to August 1933 (before the tax went into effect)--458,475 bales per month.

29 months, August 1933 to December 1935, (while the tax was in effect)--465,000 bales per month.

#### VII. What effect would the tax have on New England Textile Mills?

A tariff equivalent tax on cotton would have no effect that would work to the disadvantage of New England textile mills in contrast with textile mills in the cotton growing states. As noted before, the tax would amount to an increase in the price of raw cotton--an increase which would be shared alike by mills in both regions.



New England mill owners claim that the former processing tax was hurting their business, and forcing many mills out of operation. Probably they will claim that the proposed new tax, even if it is lower, will have the same effect. As a matter of fact, the shift of the cotton textile industry from New England to the cotton growing states has been a steady process since the beginning of this century.

Labor conditions--chiefly rates of wages and hours of labor--have been one reason for the shift to the south. A table in the Cabinet Committee's report (page 56) gives the percentage of wages to the value added to the raw cotton by the manufacturing process:

Percent wages to value added by manufacture

	<u>South</u>	<u>New England</u>
1919	38.6	45.0
1921	52.9	62.7
1923	45.9	60.1
1925	51.3	63.2
1927	51.6	60.4
1929	48.0	59.0
1931	52.1	61.9
1933	55.5	60.8

The extent of the drift from New England to the South is shown by a study of the percentage of cotton woven goods produced in New England (page 116, Cabinet Committee report). In 1904, 51 percent of the cotton woven goods produced in the United States came from New England mills. In 1933 New England mills produced only 20 percent of the total. The decline had been steady. The table gives the figures for ten of the years between 1904 and 1933. Without exception, the percentage for New England mills each year was lower than for the previous year listed. For 1935 (not included in the Committee report) New England's share of U. S. productions was 18.88 percent.

The report says (page 115):

"Beginning in the late 1880's there was a strong development of the industry in the South, and by the turn of the century new mills were being built in the South, or old ones were being transferred on a large scale.....

"By practically every test which can be applied, the New England cotton textile industry has been going downhill continuously since the beginning of the century, both in absolute terms and relative to the industry in the United States as a whole.....

"The absolute decline in the New England mills was not quite as great as the percentage decline for the country as a whole, because during the 30 years the South has increased materially its production of cotton goods."



Comparison of active spindle hours expresses the shift in very nearly the same percentages as the production contrasts given in the Cabinet Committee report. The comparison is given here to bring the study more nearly up to date. The figures indicate that during the period of the processing tax the shift from New England to the cotton growing states was slowed rather than speeded. It is true that the NRA textile code was a factor, but one cannot ignore the fact that the tax was in effect at the same time.

Ratio of active spindle hours in  
New England to total in United  
States

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1923	38
1925	34
1927	29
1929	26
1931	19
1933	24
1934	22
1935	20
1936	21

VIII. How does the price of cotton affect employment, other mill operations, and profits of textile concerns?

Industrial conditions and consumers' purchasing power have much more effect on cotton textile mill operations than the price of raw cotton alone. The cotton processing tax, in effect, meant a higher price of cotton, with the fair exchange price as the top limit. Mills paid more for cotton than they would have, had no tax been in effect and farmers received greater purchasing power from their crop.

The following table indicates that price alone has little direct relation to employment, consumption, active spindle hours, or mill profits.

Except for the price figures, all the years given are calendar years. For price, each year's figure is for the marketing year starting August 1 of the previous year. The two figures in parenthesis show the price plus the tax during the two full years the tax was in effect.

Figures showing profit or loss for cotton textile companies are not available for years later than 1934. The profit or loss record, with its violent swings within the space of a year or two indicate how hazardous and uncertain the industry is. The quick changes from profit to loss and back were taking place long before the processing tax was considered. An industry with that record finds it difficult to attribute its troubles to the processing tax.



